



HM Treasury

Cash and digital payments in the new economy: call for evidence

March 2018

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Chapter 1

Introduction

- 1.1 Digital technology has revolutionised the way people shop, sell, and save, and people are increasingly moving away from using cash. Cash has fallen from being 62% of all payments by volume in 2006, to 40% in 2016, and is predicted by industry to fall to 21% by 2026.¹ It represented only 15% of the total value of consumer spending in 2015.²
- 1.2 Meanwhile, the growth in the use of digital payments has been rapid. Contactless payments made each month have grown by nearly twenty times in the three years to June 2017.³ Research suggests that two-thirds of people are making more payments digitally than they did five years ago.⁴ Digital payments can offer consumers and businesses convenient, tailored, and flexible ways of making purchases. Increasingly, they can also offer additional services, such as ways to help budget, or keep a record of transactions. They also reduce the opportunities for the minority who use the anonymity of cash to evade tax and launder money.
- 1.3 That is not to say that cash has become obsolete. It continues to play an important part in the lives of many people and businesses in the UK, whether as a budgeting tool or as a cheap and convenient method of payment. Research suggests that across the UK, 2.7 million people are entirely reliant on cash.⁵ The government is committed to ensuring that the public's cash needs continue to be met.
- 1.4 The government wants to make sure that our economy is fit for the future and keeps pace with changes in the ways that people manage their finances. This call for evidence represents an important step in the discussion about cash and digital payments in the new economy, and how the transition from cash to digital payments impacts on different sectors, different regions and different demographics. It seeks to gather evidence to inform that debate, by exploring how the government can support digital payments; ensure that the ability to pay by cash is available for those who need it; whilst cracking down on the minority who use cash to evade tax and launder money. It is seeking both domestic and international evidence of what the government can and should do in this area.

¹ 'UK Cash and Cash Machines 2017', UK Finance, <https://www.ukfinance.org.uk/wp-content/uploads/2017/08/Summary-UK-CASH-AND-CASH-MACHINES-3.pdf>

² Ibid

³ HM Treasury analysis based on: UK Finance, 2018, <https://www.ukfinance.org.uk/statistics/cards/>

⁴ 'Consumer Omnibus Survey', Cash Services UK, 2017

⁵ 'Future of Low Value Cash Transactions', Cash Services Research, 2017

- 1.5 The government has already made digital payments simpler, quicker, and cheaper. However, it would like to know more about what further work can be done to remove barriers to digital payments. It wants to understand more about the costs and disincentives that still exist in making digital payments, and whether government could play a greater role in addressing them.
- 1.6 Although cash usage is declining, the government wants to explore how to ensure cash remains accessible and secure for those who need to use it. It is committed to making sure that the public's legitimate cash needs continue to be met, whether that's through sufficient access to ATMs, or other sources. The government is keen to understand whether the current denominational mix meets the needs of cash users, including vulnerable groups, who use cash on a daily basis for legitimate purposes.
- 1.7 The government also wants to know what more can be done to crack down on the minority who use cash to evade tax and launder money. It is keen to understand more about large cash transactions and why they are used. The government knows that some countries have taken steps to limit these, and it wants to know more about what impact that has had, including on tax compliance.

Chapter 2

Supporting digital payments

- 2.1 As an alternative to cash, digital payments offer consumers and businesses convenient, tailored, and flexible ways of purchasing goods and services. They enable transactions to be made online, over the phone, or in store, quickly and securely.
- 2.2 In the UK, digital payments have become integrated into our everyday lives. Spurred by convenience, the rise of e-commerce, and mobile technology, digital payments have grown by around 85% since 2006⁶, with a corresponding decline in the use of cash.
- 2.3 All digital payment methods have experienced this growth, with debit cards, and particularly contactless payments, increasing significantly. The number of contactless payments made each month have grown by nearly twenty times in the three years to June 2017.⁷
- 2.4 In addition, in 2008 the banking industry, at the instigation of the Office of Fair Trading⁸, collaborated to introduce Faster Payments – a payment system enabling consumers and businesses to make real-time payments. Just under 150 million payments are now processed through Faster Payments each month, equal to £123 billion of transactions, with payments volumes growing at 16% per annum.⁹

What has the government already done?

- 2.5 The government has undertaken a significant programme of work to support a better payments infrastructure and payments market in the UK. This has included taking action to address:
- a lack of competition, with high barriers to entry and a lack of a level playing field for non-bank payments firms. This had hindered these firms from coming to market and innovating in the interests of consumers and businesses.

⁶ Based on data up to 2016, Table 27.1, 'UK Payments Statistics 2017', UK Payments, 2017

⁷ HM Treasury analysis based on: UK Finance, 2018, <https://www.ukfinance.org.uk/statistics/cards/>

⁸ The predecessor to the Competition and Markets Authority

⁹ Faster Payments Ltd, 2018, <http://www.fasterpayments.org.uk/statistics>

- poor market practices, which had direct negative impacts on consumers and businesses by increasing the costs associated with cards and other methods of payment.

Creating a regulatory regime that supports competition

- 2.6 A lack of competition and an unlevel playing field in payment services results in consumers and businesses receiving poorer quality, higher cost services than necessary.
- 2.7 To address this, the government created a dedicated economic regulator for payments – the Payment Systems Regulator (PSR) – the first of its kind worldwide. The PSR opened for business in 2015 with statutory objectives to promote competition, innovation, and the interests of end-users (be they consumers, businesses, or payments firms).
- 2.8 The PSR has already made a difference by tackling access to the underlying ‘plumbing’ of the UK’s financial system – payment systems – by ensuring that this access is on fair and transparent terms. Since the PSR took action, payment firms have reported that access is simpler, quicker, and cheaper, with twice as many participants using one of the major payment systems as there were in 2015. In 2017, the government built on the PSR’s work by legislating to enable non-bank payment firms to access payment systems directly for the first time. This access will become available later this year.
- 2.9 The government has also taken steps to support the creation of alternative methods of digital payment which can compete against the dominant payment methods (such as cards). In January 2018, the UK transposed the second Payment Services Directive (PSDII), which introduced a new regulatory regime for third-party firms to make payments directly from a consumer’s bank account. To maximise the benefits of this new regulatory regime, the government has taken a lead in supporting the delivery of the Competition and Markets Authority’s (CMA) ground-breaking Open Banking initiative, a method for these newly regulated firms to securely access consumers’ accounts through standardised technology. These initiatives will make it cheaper and easier for new, innovative firms to provide alternative digital payment methods.

Directly improving consumer outcomes

- 2.10 The government has also acted in instances where greater competition alone is insufficient to improve outcomes for consumers and businesses. To date, government action has reduced the cost of cards for consumers through shaping two EU regulations and implementing them in a way that maximises benefits for consumers:
- Consumers and merchants saved around £500 million in 2016 due to a cap on debit and credit card interchange fees in the Interchange Fee Regulation. Interchange fees are one of the costs to a merchant of accepting a card payment. Prior to these caps, consumers and merchants faced higher transaction costs for accepting a card payment.
 - Consumers can no longer be charged for using debit or credit cards or other payment methods (e.g. PayPal) following the government’s

introduction and extension of PSDII. This has helped ensure that consumers know the price they are going to pay for a good or service upfront, and will not be penalised for choosing to pay in a certain way.

- 2.11 The government also legislated for the introduction of Cheque Imaging, a digital system which speeds up the time it takes for a cheque to clear from a maximum of six days to one, ensuring that consumer funds will be paid into their bank account more quickly, and more predictably. This system will provide greater opportunities for banks and building societies to innovate, such as by enabling customers to pay a cheque in by taking a photo of it, rather than having to go into a branch.

An evolving payments landscape

- 2.12 In addition to this action to address specific market failures, the government and regulators will take forward a series of actions that will further support competition and innovation in the payments sector:
- Supporting the delivery of a revamped payments architecture, which will increase the efficiency of the UK's payments infrastructure, and build trust in payments by allowing consumers to check who they are sending a payment too before they do so.
 - The Bank of England is renewing its settlement system, which sits at the heart of the UK's payments infrastructure. The renewed service will be more adaptable to new technologies and offer greater functionality for all users of payments – banks, businesses, and ultimately individuals.
- 2.13 These initiatives have served, and will serve, to create a more competitive market, increasing the range of payment options available to both customers and businesses, and driving down the costs of paying digitally for consumers.
- 2.14 Today, the UK is widely considered to be at the forefront of digital payments. Two-thirds of people are using more digital payment methods than they did five years ago, and debit card payments are forecast to overtake cash as the most frequently used method of payment this year.¹⁰
- 2.15 Nonetheless, the government and regulators are committed to ensuring that digital payments work for everyone who uses them, and will explore through this call for evidence whether government could take further steps to support the growth of digital payments.

What more can the government do to tackle the barriers to using digital payments?

- 2.16 The government is committed to supporting a vibrant and innovative payments industry, and is aware of potential factors that could be inhibiting the adoption of electronic payments. These range from the cost of some payment instruments (the British Retail Consortium Payments Survey

¹⁰ 'Consumer Omnibus Survey', Cash Services UK, 2017; 'UK Payment Markets Summary', UK Finance, 2017, <https://www.paymentsuk.org.uk/sites/default/files/products/report/summary/PUK-UK-Payments-Markets-2017-Summary-AW-Online.pdf>

suggests that the average transaction cost to merchants of processing a debit card is 0.24% of turnover to process, compared to 0.15% for cash¹¹), to a lack of trust in electronic payments, and a lack of understanding of the products and services available to consumers and businesses.

- 2.17 The government wants to understand more about these potential barriers both from the perspective of consumers and from businesses of all sizes – from large companies to SMEs and tradespeople. The government is also interested in any other barriers businesses and consumers face, and whether government could play a role in reducing them.
- 2.18 Understanding the context of business and consumer decisions could inform new initiatives to support take up of digital payments. These initiatives could range from ensuring businesses are better informed about cheaper payment options, to making digital transactions more visible, and raising awareness to increase consumer demand. The government will also examine the initiatives underway in other countries to support the adoption of digital payments.

Box 2.A: Questions

Future of digital payments

- 1 How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?

Drivers of choice of payment method

- 2 What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?
- 3 Are there international examples of countries supporting the adoption of digital payments that the government should look to?

Supporting businesses to use digital payments

- 4 Why does the cost of processing payments differ between cash and digital payments? How is it changing? And do you expect the change to continue?

¹¹ 'British Retail Consortium Payment Survey', British Retail Consortium, 2017, https://brc.org.uk/media/179489/payment-survey-2016_final.pdf

Chapter 3

The future role of cash

- 3.1 As the UK has become increasingly digitalised, there has been a reduction in the use of cash transactions. However, cash (notes and coins) remains important in the lives of many people and businesses in the UK. Industry research suggests that across the UK 2.7 million people are entirely reliant on cash and a further 45 million use some combination of cash and alternative payment methods.¹²
- 3.2 The government recognises the continued importance of cash, especially for more vulnerable members of society and the elderly. Over half of all consumers who relied predominantly on cash during 2016 had total household incomes of less than £15,000 per year.¹³ Whilst reliance on cash is far more likely to be determined by household income than any other demographic, it also varies with age, with only 2% of those aged 55-64 rarely using cash, compared to 11% of those aged 25-34.¹⁴
- 3.3 With the expected continued digitalisation of the economy, a further decline in cash usage may have profound implications for the most vulnerable in society, and for those businesses and organisations that rely on cash.

Current access to cash

- 3.4 As part of its commitment to ensure the financial services sector works for those who need it, the government, regulators, and industry will ensure the public's legitimate cash needs continue to be met, whether that is through sufficient access to ATMs, or other sources.
- 3.5 LINK, the organisation that operates the UK's ATM network, runs a financial inclusion programme to ensure the provision of ATMs in areas where they would not otherwise be viable. LINK takes a range of factors into account when considering an area for inclusion, including the level of deprivation in the area, the proportion of the population on benefits, and demographics of the population such as age.
- 3.6 LINK recently announced plans to expand the financial inclusion programme to ensure that the current geographic spread of ATMs is maintained. To do

¹² 'UK Payment Markets', Payments UK, 2017

¹³ Ibid

¹⁴ 'UK Cash and Cash Machines 2017', UK Finance, <https://www.ukfinance.org.uk/wp-content/uploads/2017/08/Summary-UK-CASH-AND-CASH-MACHINES-3.pdf>

this, they will protect all free-to-use ATMs which are a kilometre or further from the next one, ensuring that they do not close.

- 3.7 The Payment Systems Regulator (PSR) is monitoring developments within ATM provision. They will hold LINK to account against their commitments and will take action if required to ensure that the public continues to have adequate access to cash.¹⁵
- 3.8 In addition, following recent government investment in the Post Office network, consumers will continue to be able to access cash using their local Post Office: 99.7% of the UK population will be within three miles of their nearest post office outlet and 93% of the UK population will be within one mile.
- 3.9 As part of this call for evidence, the government is seeking further information on how cash usage and need has changed and will continue to change for all members of society.

Box 3.A: Questions

- 5 Who uses cash as their main form of payment and why?
- 6 How does cash usage and need vary by demographics, geography, and socio-economic status?

Current cash landscape

- 3.10 The government, the Bank of England and the Royal Mint have recently embarked on a programme of currency modernisation. This was to ensure that the currency is secure and robust against counterfeiting. The new polymer £5 note was launched in September 2016 and the legal tender status of the old £5 note was withdrawn in May 2017. This was followed with the launch of the new £1 coin in March 2017, with the withdrawal of legal tender status of the old £1 coin in October 2017. The polymer £10 note was launched in September 2017 and legal tender status for the old note was withdrawn in March 2018. The new polymer £20 note will be launched in 2020.
- 3.11 This has been a significant period of change for cash-handling industries and the public. Alongside the withdrawn notes and coins there has been a return of other denominations kept in savings jars and moneyboxes, increasing the number of coins in circulation. This has contributed to a short-term reduction in demand for coin that has resulted in large stocks of coin at cash wholesalers.

¹⁵ A summary of the PSR's work on this to date can be found at <https://www.psr.org.uk/psr-focus/the-UK-ATM-network>.

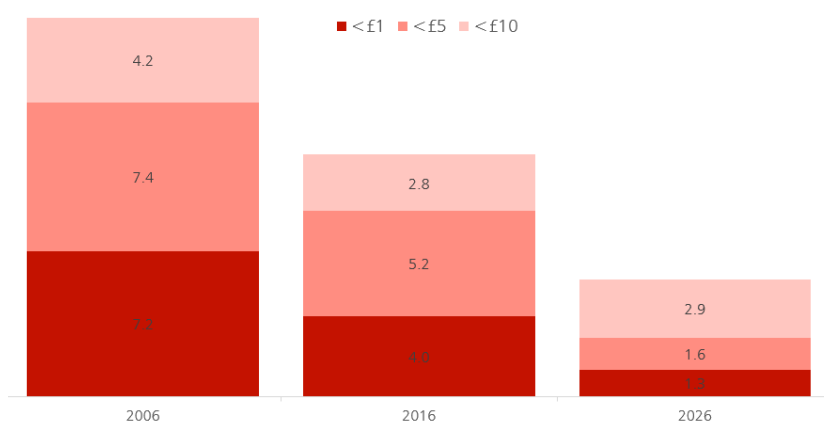
Box 3.B: Questions

- 7 How does the level of cash that you handled or used this year compare to what you handled or used five years ago? What are the drivers for that change (for example, change in customer preferences, and currency modernisation programmes such as new polymer banknotes and £1 coin)?
- 8 How do you think the level of cash you will handle or use in five years will compare to what you handled or used this year? What are the drivers for that change? And how will different sectors be impacted by this change?
- 9 What impact has the change in demand had on industries that process cash?

Denominational Mix

3.12 The decline in transactional cash usage in recent years has impacted high and low-value transactions differently. There has been a much more significant decline in the use of cash for transactions that are less than £5 compared to higher-value transactions. This has been greatest in the transport, vending and the pub, restaurant and night-time economy.¹⁶ This may be due to the rise of the use of contactless payments or the growing adoption of cashless technology in these sectors. This has impacted demand for coins more than notes.

Chart 3.A: Forecast use of cash for transactions by volume (billions)



Source: 'Future of Low Value Cash Transactions', Cash Services Research, 2017

3.13 In the normal course of the cash cycle, many denominations fall out of circulation, for example, by being placed into savings jars. Surveys suggest that six in ten 1p and 2p coins are used in a transaction once before they leave the cash cycle. They are either saved, or in 8% of cases are thrown

¹⁶ 'Future of Low Value Cash Transactions', Cash Services Research, 2017

away.¹⁷ To meet demand created by such losses from circulation, in previous years the government and the Royal Mint have needed to produce and issue over 500 million 1p and 2p coins each year to replace those falling out of circulation.

- 3.14 However, due to an increase in the rate of decline in the use of cash for lower value transactions, there is a reduction in demand for coin from cash processors; they are now holding increasingly large stocks of coin that have returned to them but for which there is declining future demand. This situation has been compounded in the short term by the public returning not only their round £1 coins but also other denominations during the recent recoinage of the £1 coin. With falling long term demand over time, structural surpluses of some denominations of coin may be generated. This will affect the long-term demand for new coin from the Royal Mint.
- 3.15 The cost of industry processing and distributing low denomination coins is the same as for high denomination coins, making the cost high relative to face value and utility. Given the fixed costs of the cash distribution infrastructure these costs are likely to rise as cash usage declines which may have impacts on the supply of coins. Some businesses are also self-regulating denominations, by using rounded pricing to avoid the need for certain low denomination coins, and setting vending and other equipment not to take some denominations of coin.
- 3.16 At the other end of the denominational scale the £50 note is believed to be rarely used for routine purchases and is instead held as a store of value. There is a significant overseas demand for £50 notes, with the notes used for some transactions, but mainly held as a store of value alongside other currencies such as the dollar and euro.¹⁸ There is also a perception among some that £50 notes are used for money laundering, hidden economy activity, and tax evasion.
- 3.17 From an economic perspective, having large numbers of denominations that are not in demand, saved by the public, or in long term storage at cash processors rather than used in circulation does not contribute to an efficient or cost effective cash cycle.

Box 3.C: Questions

- 10 Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?
- 11 Have you made, or do you intend to make, any changes to the way that you accept cash due to the change in demand (for example, implemented rounding, restricted the use of certain denominations, or changed machines so that they no longer accept cash)?

¹⁷ 'UK Circulating Coin Mintage Figures', The Royal Mint, <https://www.royalmint.com/discover/uk-coins/circulation-coin-mintage-figures/10p-to-half-penny-issued/>

¹⁸ 'Transactional use of the £50 note', internal Bank of England analysis

12 What measures can be taken to ensure that coins of denominations that are needed remain in active circulation and do not fall dormant, either with the public or at cash processors?

13 In what circumstances is a £50 note used in routine transactions and why (rather than multiple lower denomination notes)?

Coin checking and validation

- 3.18 Ensuring that there is confidence in the currency is one of the government's main priorities when it comes to cash. Cash is central to the overall integrity of a currency, and the costs of a possible loss of confidence are extremely high.
- 3.19 The Bank of England runs a Note Circulation Scheme (NCS), where members of the scheme check all returned banknotes and ensure that they are genuine, in return for flexibility in drawing down and storing new banknotes.¹⁹ Sometimes, retailers and businesses use banknotes received from customers to fill their own note-dispensing machines, like ATMs and self-service tills. This is known as local recycling. In these situations, notes are not returned to the NCS for authentication. The Bank and the cash industry sponsor a local recycling code, to encourage retailers and business to authenticate banknotes when they are locally recycled.
- 3.20 Coins have been historically handled differently, as they are lower-value. The old £1 coin was recently replaced due to the high level of counterfeit coins in circulation. Before the transition around 1 in 30 old £1 coins were counterfeit, an estimated 45 million coins, which generated a cost for businesses and the taxpayer. The transition also came at a cost for businesses and for the government.
- 3.21 All UK coins can be checked and validated by machines. Some such checks take place at cash processors. This incurs a cost to the industry; such checking must be proportionate to the risk of counterfeits, but must also be suitable to ensure that coins issued into circulation remain secure and fit for purpose. With increasing automation, coins are increasingly passed through cash handling equipment in the wider cash cycle. With this there are now more opportunities to check and validate the established and new security features of coins.

Box 3.D: Questions

14 How were counterfeit £1 coins able to enter circulation and circulate freely?

15 When and how are / should coins be checked in the cash cycle, both now and in the future?

¹⁹ 'The Lifecycle of a Banknote', Bank of England, <https://www.bankofengland.co.uk/banknotes/lifecycle-of-a-banknote>

International evidence

- 3.22 The United Kingdom is not alone in experiencing a decline in demand for cash for transactions, or reviewing their denominational mix. Looking internationally, there is an established pathway when countries begin to experience a decline in the use of cash.
- 3.23 Countries have tended to remove their lowest denomination coins from circulation when their purchasing power diminishes, and the price of manufacture and distribution outweighs the value of the coin. The specifications of mid-value coins in the denominational mix are also often changed so that they are made of lower cost materials.
- 3.24 Though the value of the £50 note is low compared to other countries' highest denominations, in order to attempt to tackle the hidden economy and illegitimate use of cash, and maintain the integrity of the currency, some countries have removed their highest value notes from circulation or replaced them with banknotes with more security features.

Box 3.E: Questions

16 Are there other international examples of countries managing a decline in demand for cash that the government should look to? Should the UK follow a similar pathway as other countries in modernising the currency?

Chapter 4

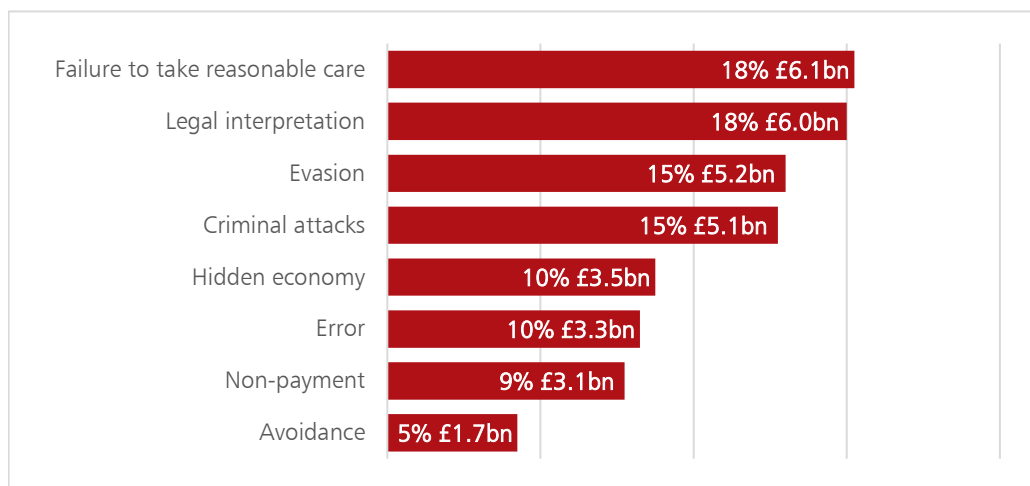
Understanding the role of cash in facilitating tax evasion and money laundering

- 4.1 Cash is extremely important in the lives of many people and businesses. As set out in the previous chapter, the government is committed to making sure legitimate cash needs continue to be met and is working with the Bank of England and the Royal Mint to modernise the currency.
- 4.2 The vast majority of traders and businesses accepting payments in cash will do so honestly. However, in some cases, the anonymous and untraceable nature of cash transactions is perceived to facilitate tax evasion, hidden economy activity, or money laundering. This harms the honest majority of businesses, who find it harder to compete, and means less money goes towards our vital public services.
- 4.3 This is consistent with HMRC's operational experience, which shows that cash can be a problem for tax compliance. In some cases, this is because taxpayers find it difficult to keep accurate records of all their transactions. In other cases, cash is used by a small minority of people to hide or disguise their taxable income by not reporting, or under-reporting, what they owe.
- 4.4 The UK's tax gap – the difference between what is owed and what HMRC actually collect – shows the level of tax non-compliance across a range of behaviours. Failure to take reasonable care can include people not keeping accurate records. Hidden economy activity and tax evasion can include people not reporting a taxable source of income.²⁰

²⁰ 'Measuring Tax Gaps', HMRC, 2017,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf

Chart 4.A: Tax gap by behaviour – value and share of tax gap, 2015-16



Source: *Measuring Tax Gaps*, HMRC, 2017,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf

- 4.5 The anonymous nature of cash can mean it is used by a minority for money laundering, supporting criminal activity. In October 2017, the government published its refreshed National Risk Assessment (NRA), which sets out the key money laundering and terrorist financing risks for the UK. Cash based money laundering remains one of the most prevalent clusters of money laundering activities impacting the UK.²¹ See Box 4.A.
- 4.6 The increasing use of digital payments and reduction in the use of cash could have a positive impact on increasing tax compliance and decreasing money laundering. However, the increase in digital payments may only have a limited impact, if the dishonest minority continue to use cash to hide or suppress their income.
- 4.7 The government is therefore keen to understand how it can go further to help prevent cash being used by those who evade tax or launder money, whilst protecting the honest majority that use cash for legitimate purposes. This includes understanding more about what trends in cash use mean for compliance in different sectors or in different circumstances.

Tax and the new economy

- 4.8 This call for evidence is focused on the role that cash and digital payments play in the new economy and how that could relate to tax compliance. However, the government also recognises that changes in the economy will have a broader impact on tax compliance, presenting challenges as well as opportunities. A number of other publications this Spring Statement recognise this and attempt to address the issues surrounding tax and the new economy. The government is:

²¹ 'National Risk Assessment', HM Treasury and Home Office, 2017,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf

- ensuring corporate tax rules are fit for the digital age, where some businesses generate significant value from UK users
- exploring how we can best use new technology to combat online fraud
- considering how platforms that open up new opportunities for taxpayers to earn income can help those taxpayers understand and comply with their obligations

What has the government already done?

Helping people get their tax right first time

- 4.9 The use of cash could have an impact on the ability of some to keep accurate records, which can contribute to the tax gap. The government is seeking to address this with Making Tax Digital, which will make it easier for businesses to get their tax right first time. Keeping records digitally, using software to reduce errors caused by miscalculations, and providing more regular updates will result in more timely and accurate record-keeping.
- 4.10 Businesses which introduce new accounting systems to comply with Making Tax Digital may find that they benefit from integrating their wider business models with this digital way of working. In particular, this may drive a preference to make and receive payments digitally rather than in cash, as there are opportunities for these transfers to be seamlessly integrated into digital accounting software.

Tackling tax evasion and the hidden economy

- 4.11 The government continues to be committed to promoting tax compliance to ensure that the right amount of tax is paid at the right time by all taxpayers. The UK's tax gap is one of the lowest in the world, and it has reached a record-low of 6.0% in 2015-16.²²
- 4.12 The government held a call for evidence on the role of cash in the hidden economy between November 2015 and January 2016.²³ It asked for views and evidence on the decline in the use of cash by both consumers and businesses, and the impact on tax compliance, the hidden economy, and money laundering.
- 4.13 Respondents' views were consistent with HMRC's operational experience, which suggests that cash is used by a minority to facilitate tax non-compliance, and money laundering. However, they felt that a decline in the use of cash in general would not necessarily result in it being used less for these purposes. They also suggested that an increase in the use of cash alternatives would not improve compliance in these areas.
- 4.14 Respondents also suggested that those who are intent on evading payment of tax or committing financial crimes would find a way to do so, regardless

²² 'Measuring Tax Gaps', HMRC, 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655097/HMRC-measuring-tax-gaps-2017.pdf

²³ 'Cash: Tax evasion and the hidden economy call for evidence', HMRC, 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479468/Cash_call_for_evidence.pdf

of any wider trends. Technological developments and new alternative payment methods may also bring new risks to tax compliance, as these could be less visible to HMRC or prone to misuse. A summary of responses was published in March 2016.²⁴

- 4.15 To tackle the hidden economy, the government extended HMRC's data-gathering powers to money service businesses (MSBs), which provide money transfer, cheque cashing, and currency exchange services. MSBs are particularly vulnerable to exploitation, and these new powers will allow HMRC to identify better those who hide sources of income from HMRC, for example, by using MSBs to access or move funds derived from undeclared work.

Tackling money laundering

- 4.16 HMRC supervises High Value Dealers (HVDs), which are businesses that make or accept cash payments of €10,000 or more, or its equivalent for goods. It does this to prevent businesses from being used for money laundering or terrorist financing purposes. The number of HVDs registered with HMRC has fallen 17% in 2016/17 and 13% so far in 2017/18, and HMRC currently supervise around 650 businesses as HVDs.
- 4.17 In addition to the action already taken, the government wants to explore what further action it could take to reduce tax evasion, hidden economy, and money laundering risks associated with cash. It also wants to hear more about why and when people legitimately transact in large amounts of cash and what the barriers are to doing this digitally.

Box 4.A: The UK's National Risk Assessment

In October 2017 the government published its refreshed National Risk Assessment (NRA), which sets out the key money laundering and terrorist financing risks for the UK. The 2017 NRA said that cash-based money laundering continues to pose a high risk to the economy. According to the assessment, as UK banks' and financial institutions' risk appetites have decreased, there has been an increase in the movement of illicit cash via the non-bank financial system, including through cash smugglers.²⁵

The previous NRA from 2015 highlighted that cash-intensive businesses such as scrap metal wholesalers, nail bars, takeaways and storage warehouses represented particularly attractive opportunities for criminals. Other firms in parts of the regulated sector (such as MSBs) may also deal intensively in cash themselves. They therefore pose attractive business propositions for criminals

²⁴ 'Call for evidence: cash tax evasion and the hidden economy summary of responses', HMRC, 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510115/Call_for_evidence_cash_tax_evasion_and_the_hidden_economy_-_summary_of_responses.pdf

²⁵ 'National Risk Assessment', HM Treasury and Home Office, 2017

looking both to launder funds through cash earnings, and to use the business' wider activities to transfer or disguise their assets.²⁶

Box 4.B: Questions

- 17 In which sectors or circumstances is cash usage likely to increase tax evasion, hidden economy, and money laundering risks?
- 18 What further action should the government take to reduce tax evasion, hidden economy, and money laundering associated with cash to ensure a fair and level-playing field for tax compliant businesses?
- 19 The government knows that businesses and individuals still use large cash transactions, and wants to understand in what businesses or sectors are large cash transactions considered necessary or more acceptable? What are the barriers to using digital payments for large transactions?

Promoting compliance through behavioural insight

- 4.18 Understanding what drives tax non-compliance can help the government prevent and respond to it. Behavioural insight and 'nudge' techniques suggests there are a number of factors that influence tax compliance.
- 4.19 A tax system that is thought to be unfair (e.g. where rules aren't applied proportionately) can make it easier for people to justify non-compliance. Insights drawn from an understanding of human behaviour also tell us that we are heavily influenced by what other people do; and it is possible to see this through higher tax compliance in countries where paying tax is widely considered the norm.
- 4.20 Learning more about what drives behaviours and the context in which they occur can also point towards ways to address tax non-compliance. This could include, for example, raising awareness of the social and ethical costs of tax non-compliance.

Box 4.C: Questions

- 20 How can the government use behavioural insights and nudge techniques to address cash related tax evasion, hidden economy, and money laundering?

²⁶ 'National Risk Assessment', HM Treasury and Home Office, 2015,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468210/UK_NRA_October_2015_final_web.pdf

21 How can government encourage declarations of activity paid for by cash across the economy, including individuals, intermediaries and businesses (such as encouraging or mandating the use of receipts)?

International evidence

- 4.21 The challenges set out in this chapter are common across a number of countries. There are examples of other countries taking different policy measures to improve tax compliance or tackle money laundering by considering the use of cash or transaction records.
- 4.22 France, Belgium, and Spain, along with several other EU countries, have cash transaction limits going up to €15,000.²⁷ These are often counter-terrorist financing measures but research suggests that cash thresholds are likely to have an impact on tax evasion, as well as money laundering connected to organised crime.²⁸ Other countries, such as Italy, have looked at using receipts differently to crack down on tax evasion.
- 4.23 The government will continue to work with our international counterparts to understand examples of what further action the UK could take to tackle tax evasion, and money laundering associated with cash. It also wants to hear more about why and when people legitimately transact in large amounts of cash, and what the barriers are to doing this digitally.

Box 4.D: Questions

- 22 Are there other international examples of countries which have tackled tax evasion and money laundering associated with cash that the UK should look to?
- 23 Should the UK follow a similar pathway to other countries and implement a cash transaction limit? If so, what would be an appropriate threshold?

²⁷ 'Limiting the use of cash for big purchases', Royal United Services Institute, 2017, https://rusi.org/sites/default/files/201709_rusi_limiting_the_use_of_cash_for_big_purchases_sands.campbell.keatinge.weisman_web.pdf

²⁸ Ibid

Chapter 5

Responding to this call for evidence

Who should respond?

- 5.1 A range of groups will be interested in the questions and evidence presented, including, but not limited to:
- the public
 - consumer groups
 - civil society groups, including charities and voluntary organisations
 - cash intensive industries- e.g. transport, gaming, amusement, vending, parking, retail, etc
 - businesses, including those registered as high value dealers and money service businesses
 - wholesale cash industry
 - financial institutions
 - trade associations
- 5.2 The government welcomes responses from anyone with an interest in the questions raised. Naturally, some groups will be more interested than others in specific sections. For example, the government expects that merchants and providers of payment services will have a particular interest in Chapter 2: Supporting digital payments.
- 5.3 The government expects that cash intensive industries (e.g. transport, gaming, amusement, vending, parking, retail, etc), the wholesale cash industry, and charities and voluntary organisations, will have a particular interest in the questions in Chapter 3: The future role of cash.
- 5.4 Businesses registered as high value dealers, money service businesses, and other government departments such as the Home Office and National Crime Agency will be particularly interested in Chapter 4: Understanding the role of cash in facilitating tax evasion and money laundering.
- 5.5 The government encourages all stakeholders to engage in any other part of the document that they find relevant.

When and how to submit your responses

- 5.6 The call for evidence will remain open for 12 weeks, and close on 5 June 2018.
- 5.7 It would be helpful for any responses to focus on the questions outlined, but please feel free to submit other information if you think it is relevant to the call for evidence. Any responses that are not directly relevant or linked to the topic of this call for evidence will not be considered.
- 5.8 Please submit your responses to
cashanddigitalpayments@HMTreasury.gsi.gov.uk.
- 5.9 Or post your response to:

Cash and Digital Payments Call for Evidence
Debt and Reserves Management
1 Blue
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Confidentiality

- 5.10 Information provided in response to this call for evidence, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.
- 5.11 The government will share relevant evidence with public bodies (such as the Payment Systems Regulator) to inform their work unless respondents request otherwise. If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.
- 5.12 In the case of electronic responses, general confidentiality disclaimers that often appear at the bottom of emails will be disregarded unless an explicit request for confidentiality is made in the body of the response.
- 5.13 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Summary of questions

5.14 The summary sets out a list of all questions in this call for evidence.

Box 5.A: Summary of questions

Chapter 2: Supporting digital payments

- 1 How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?
- 2 What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?
- 3 Are there international examples of countries supporting the adoption of digital payments that the government should look to?
- 4 Why does the cost of processing payments differ between cash and digital payments? How is it changing? And do you expect the change to continue?

Chapter 3: The future role of cash

- 5 Who uses cash as their main form of payment and why?
- 6 How does cash usage and need vary by demographics, geography, and socio-economic status?
- 7 How does the level of cash that you handled or used this year compare to what you handled or used five years ago? What are the drivers for that change (for example, change in customer preferences, currency modernisation programmes such as new polymer banknotes and £1 coin)?
- 8 How do you think the level of cash you will handle or use in five years will compare to what you handled or used this year? What are the drivers for that change? And how will different sectors be impacted by this change?
- 9 What impact has the change in demand had on industries that process cash?
- 10 Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?
- 11 Have you made, or do you intend to make, any changes to the way that you accept cash due to the change in demand (for example, implemented rounding, restricted the use of certain denominations, or changed machines so that they no longer accept cash)?

- 12 What measures can be taken to ensure that coins of denominations that are needed remain in active circulation and do not fall dormant, either with the public or at cash processors?
- 13 In what circumstances is a £50 note used in routine transactions and why (rather than multiple lower denomination notes)?
- 14 How were counterfeit £1 coins able to enter circulation and circulate freely?
- 15 When and how are / should coins be checked in the cash cycle, both now and in the future?
- 16 Are there other international examples of countries managing decline in demand for cash that the government should look to? Should the UK follow a similar pathway as other countries in modernising the currency?

Chapter 4: Understanding the role of cash in facilitating tax evasion and money laundering

- 17 In which sectors or circumstances is cash usage likely to increase tax evasion, hidden economy, and money laundering risks?
- 18 What further action should the government take to reduce tax evasion, hidden economy, and money laundering associated with cash to ensure a fair and level-playing field for tax compliant businesses?
- 19 The government knows that businesses and individuals still use large cash transactions, and wants to understand in which business practices or sectors are large cash transactions considered necessary or more acceptable? What are the barriers to using digital payments?
- 20 How can the government use behavioural insights and nudge techniques to address cash related tax evasion, hidden economy and money laundering?
- 21 How can government encourage declarations of activity paid for by cash across the economy, including individuals, intermediaries and businesses (such as encouraging or mandating the use of receipts)?
- 22 Are there other international examples of countries who have tackled tax evasion and money laundering associated with cash that the UK should look to?
- 23 Should the UK follow a similar pathway to other countries and implement a cash transaction limit? If so, what would be an appropriate threshold?

HM Treasury contacts

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